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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

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REAL WAGES AT ALL-TIME PEAK

THE chart on page 238 reflects one aspect of our faltering prosperity and at the same time presents a challenge to the merchandising genius of business. Never during the life of this chart and possibly since the history of the country have real wages (after taxes, see red line) been at their present lofty level. That is the challenge. Of course, the reasons real wages are high are threefold. Money wages rose to an all-time peak - then prices dropped - and no increase in Federal income taxes has occurred recently. The price drops are indicative of faltering prosperity, which is bad. They are also indicative of the long awaited return of competition, which is good, providing it does not progress too far toward the cut-throat stage.

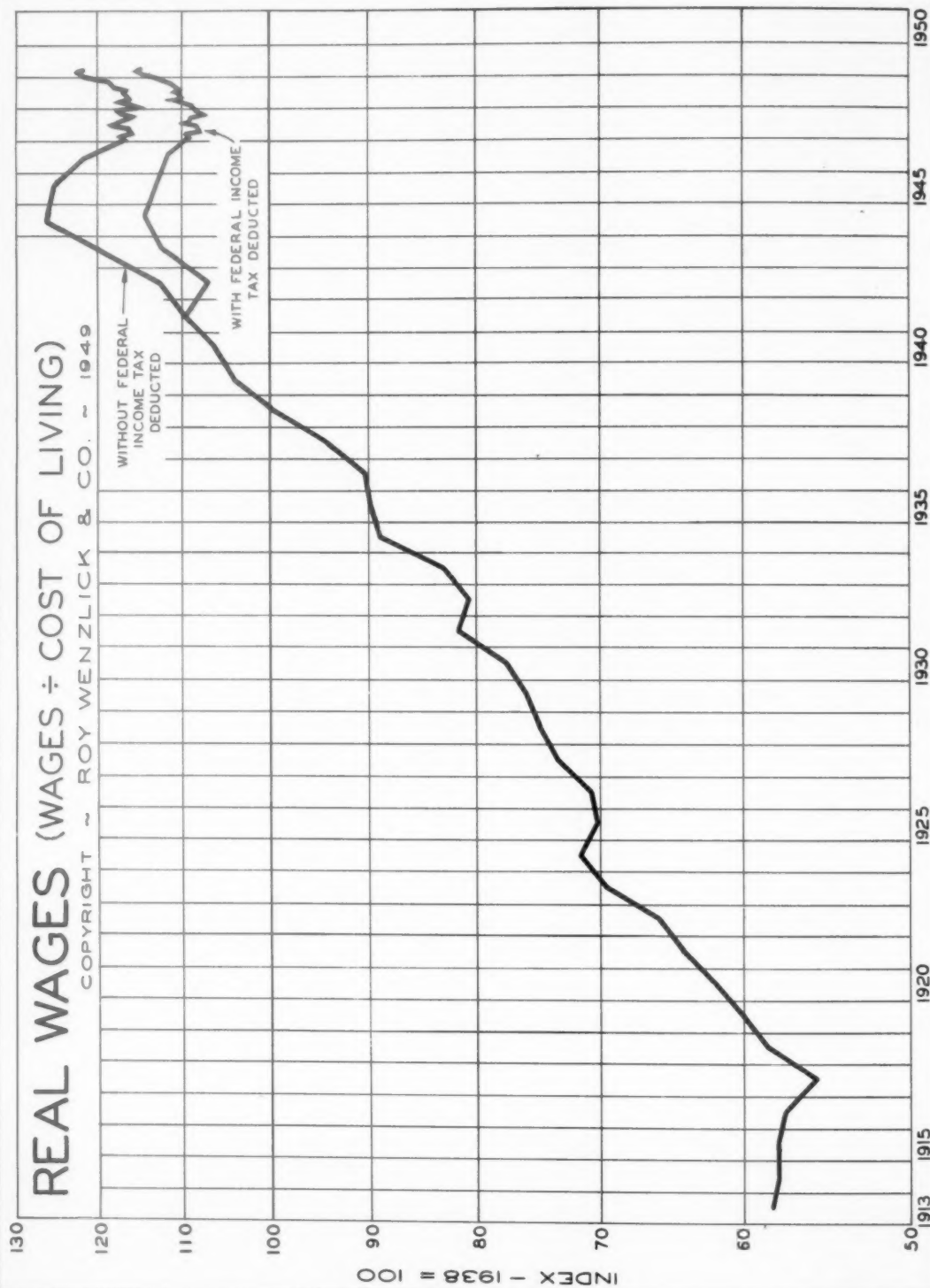
The inventiveness, the ingenuity and the amazing productive capacity of the American capitalistic system have poured forth a glittering array of products. Now that competition has returned, it is greatly intensified by the abundance and variety of products offered in the American market. Competition is not confined to different lines, it is also intense between different products. The battle for the consumer's dollar is waged between refrigerators and washing machines, television sets and automatic stoves, new automobiles and vacation trips, and on ad infinitum in a vast swirl of advertising, markdowns and premium offers (for a limited time only). Woven through the hue and cry of the Market Place are the subtle blandishments of the Treasury Department and the lending institutions coaxing the consumer to consume less and save more.

With the return of the buyer's market many consumers have expected a sudden emancipation from high prices with the result that small price cuts have mostly been dissipated upon the anticipation of still larger ones. Instead of playing cat and mouse with the customer, a number of firms have made sizable price reductions (in some lines up to 50%) with the announcement that no further cuts would be possible for some time to come.

The best hope for arresting the recession at this time seems to lie in increased consumer expenditures. The Keynesian theorists hold that increased investment creates higher consumer incomes and, therefore, higher consumer expenditures. At this juncture, however, with real consumer income at an all-time high, the indicated course is to sell the goods the country is capable of producing before worrying with increased expansion. A great deal depends upon the aggressiveness and eloquence of the salesmen.

REAL WAGES (WAGES ÷ COST OF LIVING)

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CAUTION - NOT PESSIMISM

IT has long been recognized by various theorists of business cycles that psychological factors play an extremely important part in the ebb and flow of prosperous times. In these days of split second communications, nation-wide newscasts and up-to-the-minute statistics, these psychological forces can take hold with great rapidity. It is now possible for virtually the entire business population to become steeped in pessimism and apathy in a very short time. It, therefore, behooves all of us not to be stampeded into decisions that may later turn out to be too conservative. We would be the last to deny, however, that more difficult days have arrived; in fact, they arrived several months ago. There have even been several hints from Washington that all is not so well with the economy as it was last fall. However, all is not yet lost. The time has not yet arrived to flee to the hills. That time may come, but it is certainly not upon us.

On the center spread of this bulletin appears our chart on business failures and liabilities. Since reaching a low point in 1945 business failures have been increasing rapidly. In March 1949 the number of failures reached a postwar peak and the size of average liabilities indicates that not all of these failures are small marginal firms. On the other hand, failures are still far below the prewar pace. In view of the enormous increase in the number of new businesses during the past six years, the number of failures is not particularly disturbing.

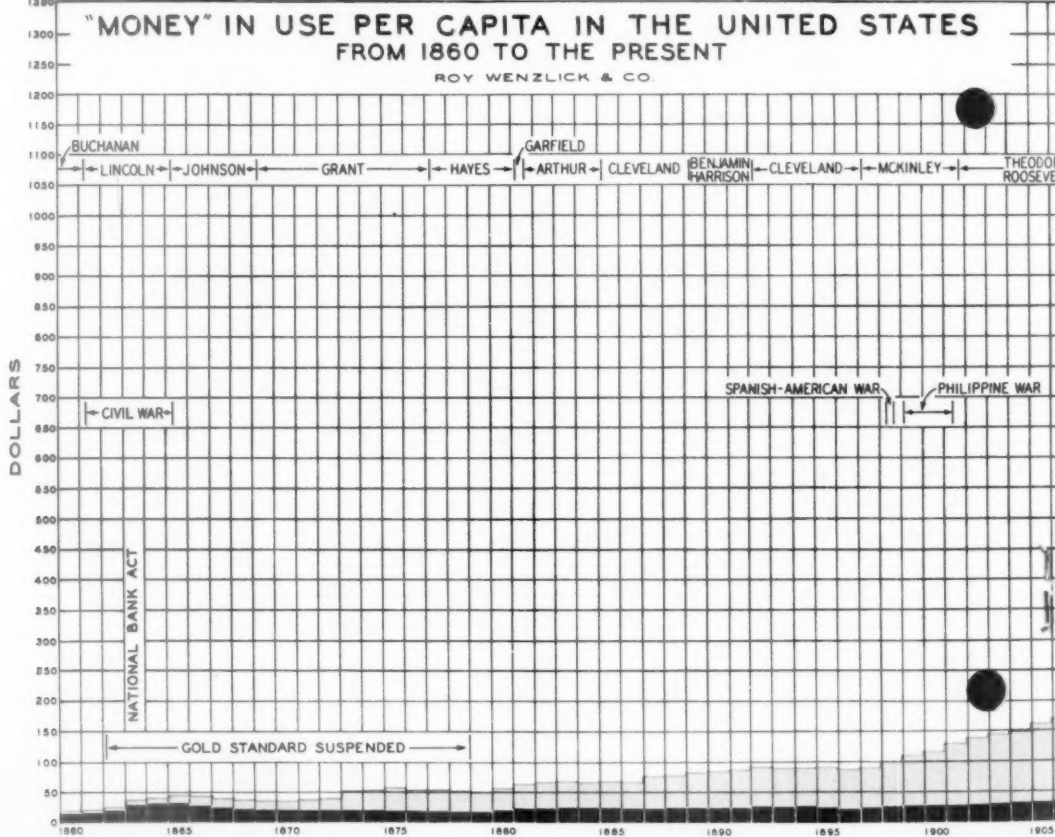
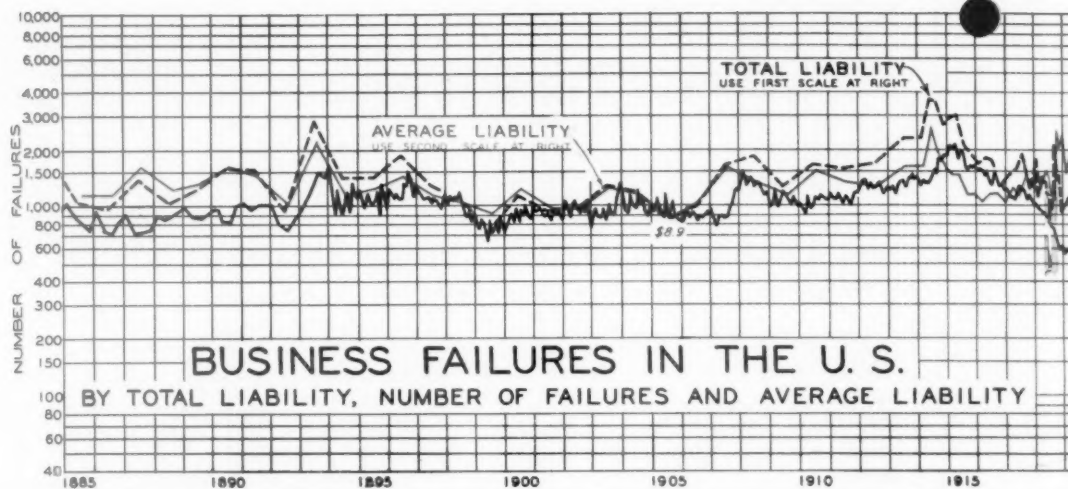
On the bottom half of the center spread is our chart on money in use per capita. There has been very little shrinkage in money in use per capita since the peak in 1946, and the New York Federal Reserve Bank's index on velocity of turnover of demand deposits (outside New York) in April 1949 was at the same rate as April 1948. This indicates that since sales in most lines are down from last year (see charts on page 244) a larger portion of money is going into savings and debt reduction. Installment loans to finance new homes, automobiles and other types of consumer durable goods usually result in a good deal of duplication in the figures used to compile the velocity index. This factor may partially account for the stable rate of the velocity with which money is turning over.

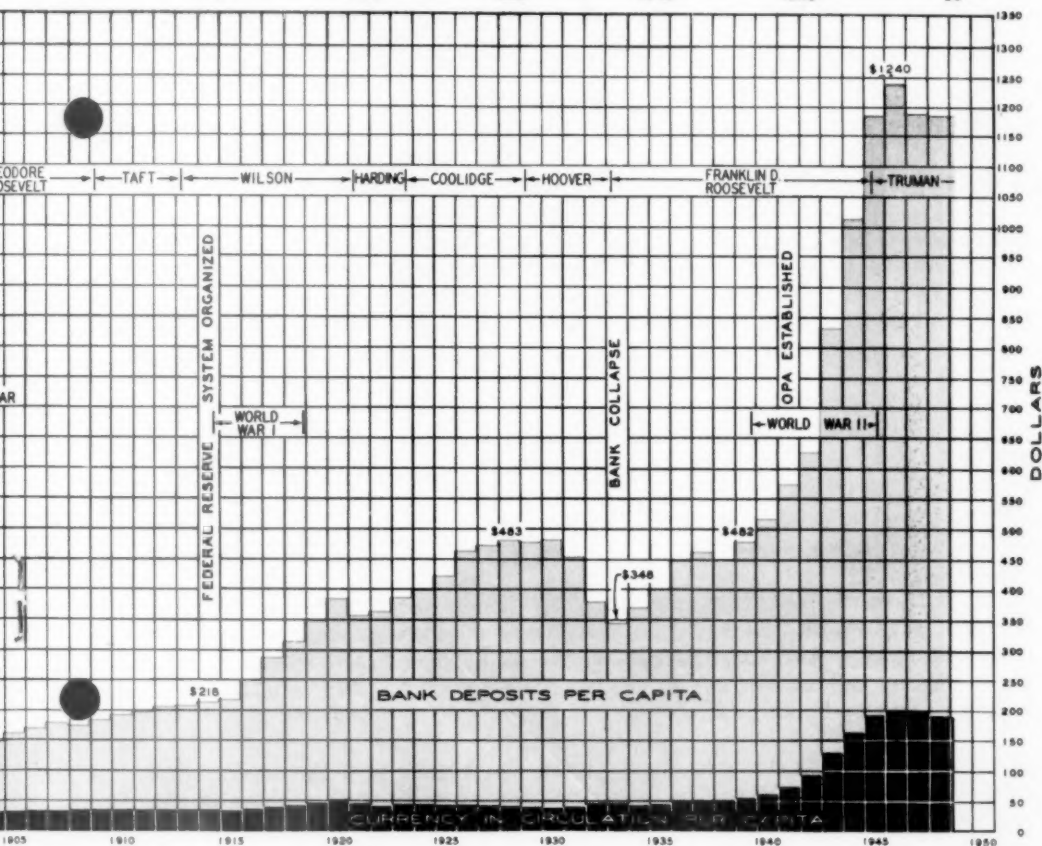
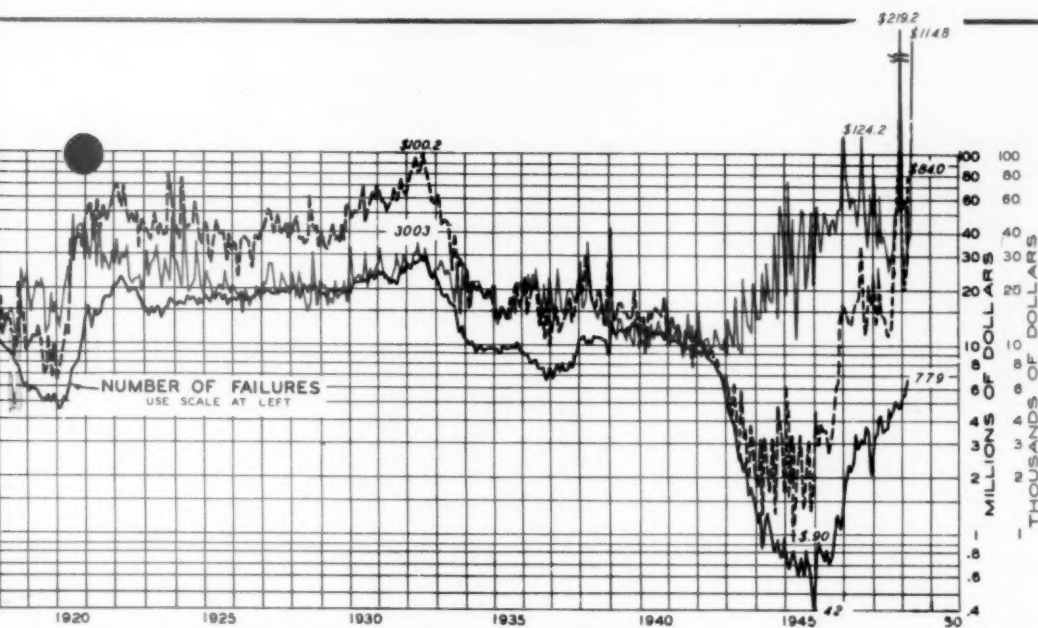
The charts on page 244 show the course since 1939 of inventories, sales and new orders in the manufacturing, wholesale and retail groups. The charts admonish caution, but they do not necessarily spell out a quick collapse.

Retail sales - those closest to the consumer - were up 5% in April over March, and up 5% over April of 1948. For the first four months of 1949 they were down - 2% below the first four months of 1948. For this same period, however, retail sales were up in eight different groups: combination grocery and meat markets, dairy products stores, milk dealers, radio and musical dealers, paint, glass and wallpaper stores, motor vehicle dealers, drug stores, and book stores.

Department store sales, however, were off 3% and most building material sales were down between 5% and 18%.

During the first four months of 1949 wholesale sales reflected the growing reluctance on the part of retailers to build inventories by dropping 7% below the first four
(cont. on page 242)





UNUSUAL BUSINESS BAROMETERS

IN plumbing the mysterious depths of the business cycle, very few sounding devices have been neglected. Several years ago we began a list of some of the more unusual of these devices and on page 243 show two of them compared with the Cleveland Trust Company's business activity index. Neither of the two is widely used but each has achieved some recognition in business forecasting. We have had little experience with either and cannot vouch for their dependability. On the whole, however, they are both quite interesting.

Since both lettuce prices and cigar sales are afflicted with seasonal fluctuations, these indexes have been corrected to eliminate these changes. Because of the fact that eating habits and smoking habits have undergone quite a change since the beginning of the period charted, it was necessary to correct the indexes for long-term trend.

Both indexes correspond rather closely with the general business index, the variations being more in degree than in direction of trend. Since the cigar sales index is plotted on a yearly basis, it cannot be compared too closely with the other two.

Should any of our subscribers wish to suggest other unusual business barometers, we will be glad to chart the results.

CAUTION - NOT PESSIMISM (cont. from page 239)

months of 1948.

Wholesale sales of dry goods for the first four months of 1949 were 22% below the first four months of 1948. Other sizable drops for the same period were in the wholesale sale of industrial chemicals, 19%; meat and meat products, 16%; jewelry, 14%; plumbing and heating supplies and hardware, 13%; and furniture and house furnishings, 11%. A portion of each of these drops is undoubtedly attributable to lower prices.

Although dropping recently, wholesale inventories were still 9% higher in April 1949 than in April 1948. It is interesting to note that the largest increase in wholesale inventories occurred in the region with the smallest decrease in wholesale sales and the smallest increase in wholesale inventories occurred in the region with the biggest drop in wholesale sales.

The largest gains in wholesale inventories (April 1949 over April 1948) were in furniture and house furnishings, 41%; metals, 40%; electrical supplies and appliances, 35%; and lumber and building materials, 22%. The largest drops in inventories for the same period were in meat and meat products, 40%; clothing and furnishings, 33%; and dry goods, 18%.

Although manufacturers' sales are slightly ahead of a year ago, they have been dropping slowly for several months. The most disturbing aspect of this chart is the apparently determined way in which the line representing new orders has fallen.

